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THE CRAIG BIT COMPANY LIMITED

DIRECTORS

J. C. ALEXANDER	Cambridge, Ontario
G. P. WEST	Cambridge, Ontario
E. L. HEALY	Toronto, Ontario
J. KOSTUIK	Don Mills, Ontario
J. W. WILCOCK	Pittsburgh, Pennsylvania

OFFICERS

J. C. ALEXANDER	President
J. A. READ	Vice-President and General Manager
R. J. TRAIN	Assistant Secretary-Treasurer

HEAD OFFICE

180 Ninth Street	North Bay, Ontario
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AUDITORS

PRICE WATERHOUSE & CO.	Kitchener, Ontario
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TRANSFER AGENT AND REGISTRAR

MONTREAL TRUST CO.	Toronto, Ontario
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**ANNUAL REPORT OF THE DIRECTORS
TO THE SHAREHOLDERS OF
THE CRAIG BIT COMPANY LIMITED**

Your Board of Directors is pleased to submit herewith its Annual Report, also the Auditor's Report for the year ended September 27th, 1974. These reports will be presented for the approval of the Shareholders, at the Annual Meeting of the Company, to be held in Room No. 6, Main Mezzanine Floor, at the Royal York Hotel, Toronto, Ontario on Wednesday, February 5th, 1975 at 11:00 o'clock a.m.

Sales and profits in fiscal 1974 increased, as was forecast in the Annual Report for fiscal 1973. Net sales increased by over 50 percent for the like period. A profit of almost \$158,000 was realized, against a loss of over \$66,000 in the previous year.

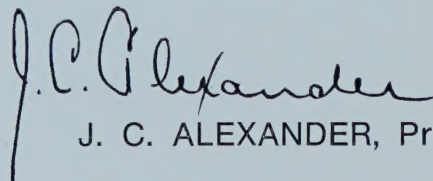
The sales increase reflects the planned increased participation by Craig Bit in the contract drilling business in the Mining Industry, as well as increased activity in the mining and construction business in Canada this past year. Increased sales volume, coupled with our active cost savings program, was a major factor in the profit increase. As a result of these profits, we were able to resume payment of the semi-annual dividend, in the last half of the year.

The increase in inventory is directly accountable to increased sales volume and the need to provide larger in-circuit inventories for contract drilling to new accounts which we obtained this year.

Your Company should maintain its profitability, provided there is no serious drop-off in mining activities due to the current federal and provincial government regulations, and that there are no serious cutbacks in base metal requirements from Canada, due to the current world economic situation.

The Board wishes to express its sincere appreciation to the Officers and Employees of the Company for their continued loyal support and co-operation throughout this past year.

On behalf of the Board,



J. C. ALEXANDER, President.

Price Waterhouse & Co.

chartered accountants

Suite 1012 22 Frederick St. Kitchener, Ontario N2H 6M6 (519) 579-6300

October 18, 1974

AUDITORS' REPORT

To the Shareholders of
The Craig Bit Company Limited:

We have examined the balance sheet of The Craig Bit Company Limited as at September 27, 1974 and the statements of income and retained earnings and changes in financial position for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at September 27, 1974 and the results of its operations and the changes in its financial position for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

THE CRAIG BIT C

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BALANCE SHEET

ASSETS

	September 27 1974	September 28 1973
CURRENT ASSETS:		
Cash	\$ 4,185	\$ 28,708
Accounts receivable and accrued revenue	759,111	354,464
Income taxes recoverable	—	64,929
Inventories (Note 2)	1,636,413	1,348,366
Prepaid expenses	19,110	16,773
	<u>2,418,819</u>	<u>1,813,240</u>
 DEFERRED PENSION COSTS (Note 3)	 20,000	 —
 FIXED ASSETS, at cost (Note 1):		
Buildings	388,460	388,460
Machinery and equipment	1,653,456	1,536,332
	<u>2,041,916</u>	<u>1,924,792</u>
Less: Accumulated depreciation	1,539,807	1,365,006
	<u>502,109</u>	<u>559,786</u>
	 <u><u>\$2,940,928</u></u>	 <u><u>\$2,373,026</u></u>

PANY LIMITED

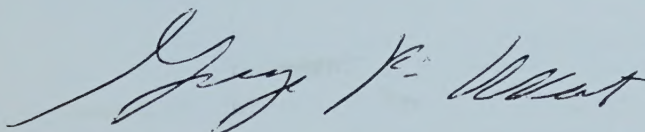
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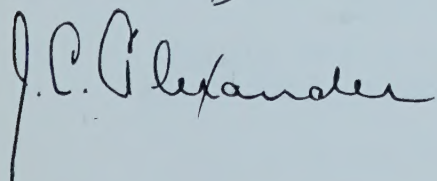
HEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 27 1974	September 28 1973
CURRENT LIABILITIES:		
Bank loan	\$ 275,000	\$ 250,000
Accounts payable and accrued liabilities	754,407	394,824
Income taxes payable	55,854	—
Due to Joy Manufacturing Company (Canada) Limited (majority shareholder)	32,270	82,710
	<u>1,117,531</u>	<u>727,534</u>
DEFERRED INCOME TAXES (Note 1)	139,639	110,439
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized—500,000 common shares of no par value		
Issued and fully paid—232,000 common shares	180,214	180,214
Retained earnings	1,503,544	1,354,839
	<u>1,683,758</u>	<u>1,535,053</u>

APPROVED BY THE BOARD:

 Director

 Director

\$2,940,928

\$2,373,026

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THE CRAIG BIT COMPANY LIMITED

(incorporated under the laws of Ontario)

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 27, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fixed Assets:

Maintenance and repairs are charged to expense. Additions and improvements which substantially extend the useful life of an asset are capitalized. The cost of fixed assets has been reduced by \$137,540 to reflect a government grant received in prior years.

Depreciation on buildings, which are erected on leased land, is calculated to amortize the cost of the buildings over the remaining term of the lease. Equipment is depreciated on the diminishing balance basis mainly at the rate of 20%.

Income Taxes:

The Company follows the tax allocation method of accounting for income taxes. Under this method the income tax provision is based on the income reported and the amount by which the current tax provision differs from the amount of taxes currently payable is reflected by an increase or decrease in the balance sheet account "Deferred income taxes".

Earnings per share:

Earnings per share are based on the weighted average number of shares outstanding during the year.

2. INVENTORIES

Inventories, which are valued at the lower of cost and net realizable value, consist of the following:

	1974	1973
Raw materials	\$ 598,400	\$ 444,804
Work in progress	207,603	75,469
Finished goods	830,410	828,093
	<u>\$1,636,413</u>	<u>\$1,348,366</u>

3. PENSIONS

As a result of increased pension benefits granted to the Company's hourly paid employees during the year, the Company's independent actuaries have advised that an unfunded past-service liability of \$50,044 was created. The Company has elected to fund this liability by payment of \$25,000 in 1974 and annual payments of approximately \$2,500 for fifteen years beginning in 1975.

The \$50,044 past-service cost will be charged to operations over 10 years and, accordingly, pension costs for the year of \$46,925 include \$5,000 in respect of past service.

4. EXECUTIVE REMUNERATION

Total remuneration paid or payable to directors and senior officers, as defined in the Business Corporations Act (Ontario), for the fiscal year ended September 27, 1974 amounted to \$79,125 (1973 — \$62,600).

5. RENTALS

The annual rental on leased land at North Bay, the lease for which is due to expire in 1986, is \$6,700.

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STATEMENT OF INCOME AND RETAINED EARNINGS

	For the fiscal year ended	
	September 27 1974	September 28 1973
Net sales	\$3,539,699	\$2,323,813
Costs and expenses exclusive of items noted below	3,102,984	2,336,421
Depreciation	174,801	106,776
Bank interest	17,909	15,420
Income taxes	106,020	(68,061)
	<u>3,401,714</u>	<u>2,390,556</u>
Income (loss) before extraordinary item	137,985	(66,743)
Add—Reduction of income taxes otherwise payable as a result of losses carried forward from prior years	20,000	—
Net income (loss)	157,985	(66,743)
Retained earnings at beginning of year	1,354,839	1,430,862
	<u>1,512,824</u>	<u>1,364,119</u>
Dividends paid (4c per share)	9,280	9,280
Retained earnings at end of year	<u>\$1,503,544</u>	<u>\$1,354,839</u>

Earnings (loss) per share (Note 1):

Income (loss) before extraordinary item	<u>\$0.59</u>	<u>(\$0.29)</u>
Net income (loss)	<u>\$0.68</u>	<u>(\$0.29)</u>

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STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the fiscal year ended	
	September 27 1974	September 28 1973
FINANCIAL RESOURCES PROVIDED BY:		
Net income	\$ 157,985	\$ —
Add—Expenses not requiring outlay of working capital:		
Depreciation	174,801	—
Deferred income taxes	29,200	—
Working capital provided from operations	361,986	—
FINANCIAL RESOURCES USED FOR:		
Loss	—	66,743
Add (deduct)—Recoveries (expenses) not affecting working capital:		
Depreciation	—	(106,776)
Deferred income taxes	—	68,061
Working capital applied to operations	—	28,028
Deferred pension costs	20,000	—
Investment in fixed assets (net)	117,124	54,222
Dividends	9,280	9,280
	146,404	63,502
Increase (decrease) in working capital	215,582	(91,530)
Working capital at beginning of year	1,085,706	1,177,236
Working capital at end of year	\$1,301,288	\$1,085,706

